Committee On Finance

Max Baucus, Ranking Member

NEWS RELEASE http://finance.senate.gov

For Immediate Release
Tuesday, September 21, 2004

Contact: Brian Pomper
202-224-4515

Speech of U.S. Senator Max Baucus at the First Annual Asia Forum "Toward a Strong Asia Trade Policy"

In July of 1853, Commodore Matthew Perry led a squadron of four warships into Tokyo Bay with orders from President Fillmore to open trade relations with the Empire of Japan. The following spring, the Treaty of Kanagawa opened Japan to America, and a long and fruitful trading relationship had begun.

Today, we are no longer quite so aggressive in our trade with Asia. In fact, far from forcing our way into trade relations with Asian countries, we often seem disengaged and indifferent. This at a time when Asian countries are working hard to strengthen their economic ties to one another and around the world. On trade, we appear content to leave Asia to the Asians.

Now, I'm not advocating for a repeat of Commodore Perry's gunship diplomacy. But it's a useful – and somewhat ironic – contrast. We once risked bloodshed to trade with Asia. Today, we could trade more with Asia simply by dedicating more resources and shifting our focus. But, inexplicably, this Administration seems unwilling. In my view, that is a serious and costly mistake.

INSUFFICIENT FOCUS ON ASIA

Five of the top ten U.S. trading partners are in Asia. So are seven of the last decade's eleven fastest growing economies. More than half the world's population lives in Asia. Ask anyone in the business community where the most important markets for the future lie. They're not in the Middle East. And they're not in Central America. They're in Asia. On this point, there is almost universal agreement.

Given all this, one would think U.S. trade policy would be focused heavily on Asia. But it's not. Instead, our limited resources are spent elsewhere, on relationships and agreements with little commercial value. This Administration has held trade policy hostage to foreign policy.

For example, the Administration recently announced its intention to begin free trade agreement negotiations with the United Arab Emirates and Oman. These countries are our forty-eighth and seventy-eighth largest trading partners, respectively. Our exports to Oman last year were worth about two days of our exports to Japan, and about five days of our exports to Korea. Yet free trade negotiations with Japan and Korea are nowhere in sight.

Everyone understands that trade is also used to accomplish foreign policy objectives. Together with Senator McCain and others, I have also worked hard in the last two years to encourage greater economic engagement with the Middle East. But trade is far too important to play second fiddle to foreign policy. Trade is about jobs. And a smart trade policy is indispensable to a healthy and globally competitive economy.

ASIAN INTEGRATION

In the absence of strong U.S. trade policy in the region, Asian countries are looking inward. Increasingly, they look toward China. And China is looking toward them. In early September, ministers from the ten ASEAN countries met in Jakarta to discuss accelerating the pace of their economic integration, both internally and with other countries in Asia. They set timetables for free trade agreements with Japan, South Korea, Australia, and New Zealand. They also made progress on free trade agreements with China and India.

We should monitor these events closely. For the second year in a row, however, the United States did not even send a trade official to attend the ASEAN ministers' meeting, despite being invited to do so. Southeast Asia has recently undergone a series of elections and political transitions – in Malaysia, Singapore, the Philippines, Indonesia, and Cambodia. Thailand will hold elections early next year. We should seize this opportunity to renew our economic ties to the ASEAN countries. Instead, we seem content to allow others to step into the void left by America's increasing disengagement in Asia.

No country has capitalized on this U.S. policy drift more than China. In 2003, for the first time in more than a century, Japan exported more to China than to the United States. Korea passed that milestone the same year. China now serves as the main trading partner for nearly every country in Asia. It aggressively sought free trade negotiations with the ASEAN countries. And it succeeded in November 2002 with the China-ASEAN framework agreement that set 2010 as a target completion date.

China is also planning to negotiate free trade agreements with Australia and New Zealand. And it is pushing the "ASEAN plus three" talks – ASEAN plus China, Japan, and Korea. We should encourage inter-Asian economic integration. It will aid economic development. It will help with political stability in the region. But we should not simply watch from the sidelines.

Asian economic integration can help create a larger market for U.S. goods and improve U.S. competitiveness, but not if we cede that potential to others. The United States is a Pacific power, as well. And many Asian countries would like us to be more engaged in Asia, if only to check the rising power of China – a partner to many countries in the region, but also a major competitor.

REGIONAL AND SECTORAL TRADE AGREEMENTS

One way for the United States to increase its involvement in Asia would be to reinvigorate APEC. Chile's President recently suggested an APEC-wide free trade agreement, renewing the 1994 Bogor Declaration that first proposed such an agreement. That idea deserves serious consideration. The alternative is to be left behind by a potential "ASEAN plus three" agreement. Such an "East Asia Free Trade Agreement" would cost the United States about $25 billion per year in lost exports, and more as investment is diverted to the region.

We should pursue further sectoral agreements like the WTO's Information Technology Agreement, negotiated largely by the United States, Japan, Taiwan, and Korea. The ITA has been a huge success. It now covers half a trillion dollars of trade every year.

One area ripe for a sectoral initiative is medical equipment. Asia has a rapidly aging population – in Japan, Korea, and perhaps most of all in China. That means growing demand for advanced medical equipment. An agreement reducing or eliminating tariffs and other barriers to trade in these products could be of tremendous benefit to both the United States and Asia.

Following on Singapore and Thailand, we should also negotiate more bilateral free trade agreements with Asian countries. Malaysia, Taiwan, Japan, and Korea are all promising candidates. Each was among the top ten U.S. trading partners last year.

FREE TRADE AGREEMENTS WITH JAPAN AND KOREA

In particular, we should look at negotiations with Japan and Korea. I have no illusions about the difficulties involved. But Japan and Korea offer enormous markets for U.S. consumer products. They are huge purchasers of U.S. agricultural goods. And they have their own reasons for wanting an FTA with the United States.

Both could use the FTA to help revive their sagging economies and support economic reforms. Both would also likely welcome the U.S. economic counterbalance to China. FTAs could also support and reaffirm both countries' close security relationship with the United States. Without FTAs, both countries are likely to drift ever closer to China.

Business in Japan would love an FTA with the United States. I spoke with Japanese businesspeople about it during my trip to Japan earlier this year. And because the U.S. market is more open than the Japanese market, a properly negotiated FTA would have huge benefits for U.S. industry. Seeking an agreement with Japan or Korea is certainly ambitious. But it's no more ambitious than NAFTA, the Uruguay Round, or the ongoing Doha negotiations. We should not be defeatist. Talking seriously about these agreements can create momentum for them.

The United States should also embrace the challenge of negotiating an FTA with a world-class economy in Asia to help save the consensus for free trade. Some believe that recent strong congressional votes for FTAs with Australia and Morocco signal greater support for trade agreements generally. I'm not sure about that.

Indeed, I could imagine Congress suffering "trade fatigue" as it is repeatedly asked to approve commercially insignificant agreements with small economies. And easy votes for agreements with small economies can offer political cover for members to oppose agreements with more substantial economies, when the politics are more difficult.

There is also the private sector to consider. How long can we expect business and agricultural groups to invest their resources to support trade agreements that offer only marginal gains? An agreement with Japan or Korea could reinvigorate trade supporters whose enthusiasm may be flagging. And such an agreement could allow congressional trade boosters to make an honest case for trade beyond "the agreement is so small it can't hurt us."

ENFORCEMENT

Another way to be more active in Asia is to enforce our rights more aggressively. This is especially true with respect to intellectual property, where many Asian countries have terrible records. The rate of piracy for business software approaches or exceeds ninety percent in China, Vietnam, Indonesia, and Pakistan. Lowering the piracy rates in these countries would have a tremendous positive effect on the bottom line for many U.S. companies.

But instead of emphasizing enforcement, the Administration chose not to seek renewal of funds earmarked to ensure China's WTO compliance. How can we expect to benefit from trade agreements if we don't enforce them?

CURRENCY

I would be remiss if I gave an address on Asia without mentioning currency. Many in the United States believe that China's yuan is undervalued. They believe that keeps the price of Chinese exports artificially low, making U.S. exports less competitive and costing U.S. jobs. I have sympathy for these concerns, but simply revaluing the yuan will not be the jobs panacea some think. It is, however, critical to restoring balance to the world economy.

China's undervaluation of the yuan has forced other Asian countries – most notably Japan and Korea – to hold their currencies artificially low, which keeps their exports cheap. The euro, meanwhile, has had to bear the brunt of the dollar's recent decline, rising nearly fifty percent against the dollar. That makes European goods more expensive and could squelch Europe's economic recovery.

And with major Asian currencies essentially pegged to the dollar, it will be difficult to rebalance the massive U.S. current account deficit. The longer that deficit persists, the more painful the adjustment will be for the global economy when it finally comes, as it inevitably must. While an immediate flotation of the yuan could destabilize China's economy, we should be working aggressively toward that goal. In the short-term, we should push for a one-time revaluation of the yuan to reflect current economic realities. That could help ease global imbalances.

It is not helpful for the Treasury Department to give China or Japan the green light to continue holding their currencies down, as it did in two recent politically-motivated reports absolving either country of any currency manipulation. Their currencies need to rise to permit the world economy to shift into balance.

VISAS FOR BUSINESS AND EDUCATION

I want to touch on one more issue that is not specifically Asia-focused, but is one that can have profound implications for U.S. trade with Asia. I speak of our visa system for foreign businessmen, businesswomen, and students.

No one will deny that in the post-9/11 world, the United States must vigilantly protect our borders. But we need to strike a balance between this vigilance and economic health. I have heard too many stories of U.S. companies with willing Asian buyers or investors who ended up sourcing from or investing elsewhere. Why? Because they were not able to get the necessary visa to visit the United States in a reasonable time. This is a growing problem that hurts our trade balance and the competitiveness of U.S. companies worldwide.

It also affects our ability to attract the best and brightest students from across the globe, as we have traditionally done. Many of the world's leaders attended universities in the United States. They include the current Presidents of Indonesia, France, Bolivia, Costa Rica, Honduras, Peru, Palau, Lithuania, Georgia, and Tunisia; the current Prime Ministers of Thailand, Singapore, Antigua & Barbuda, Guyana, Jamaica, and Singapore; the King of Jordan; and the Crown Princes of Norway and Bahrain. President Arroyo of the Philippines and the Thai Ambassador to the United States graduated in the same class at Georgetown as former President Clinton.

Educating foreign leaders in their youth is an invaluable form of "soft diplomacy" that can help orient them toward the United States. If they are educated elsewhere, they will likely focus their time, attention, and investment elsewhere. Our openness has always been a great source of our strength. If we close the United States to foreign businessmen and students, it will sap our strength. It will deliver a long-term victory for those who wish us harm.

CONCLUSION

Greater involvement in Asia's economic development; regional, sectoral, and further bilateral trade agreements; greater enforcement of our rights under existing agreements; a push toward currency liberalization; and a sensible visa policy for business and students. These are the elements of a strong Asia trade policy – and a strong and globally competitive U.S. economy.

During his first year representing Montana in the Congress in 1943, my old mentor Senator Mike Mansfield – an expert on Asia – told his colleagues: "We must not forget our future lies, in large part, in the Pacific." That statement was true in Commodore Perry's time. It was true in Mike Mansfield's time. And it is true today.

Our future lies in Asia. Asia will be an important engine of global growth for at least the next generation. We should not miss the opportunity to help shape and participate in that growth. I believe our economy may depend upon it.

###